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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 001836

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STATE FOR EAP/RSP/TC, STATE PASS USTR FOR DEPUTY USTR
BHATIA FROM DIRECTOR YOUNG

E.O. 12958: DECL: 05/26/2031

TAGS: [ECON](#) [TW](#)

SUBJECT: DUSTER BHATIA HEARS THAT TAIWAN BUSINESS RESENTS
UNCERTAINTY

REF: TAIPEI 1727

Classified By: AIT Deputy Director David Keegan, Reason 1.4 b

¶1. Summary. DUSTR Bhatia met with prominent Taiwan business leaders May 25. This group characterized Taiwan's cross-Straits relations as uncertain, noting that this puts Taiwan firms in limbo while waiting for clarity on President Chen Shui-bian's plans for the future. Cross-Straight economic integration is well underway and will continue to be a key factor for Taiwan firms in the future. They complained about PRC subsidies while urging Taiwan to focus on developing stronger economic, political and financial institutions to support future prosperity. End Summary.

¶2. AIT Director Young hosted a lunch for Deputy U.S. Trade Representative Karan Bhatia to meet a group of prominent Taiwan business representatives. Assistant U.S. Trade Representative for China Timothy Stratford and AIT Econ Chief also attended. The guests list consisted of: Morris Chang, Chairman, Taiwan Semiconductor Manufacturing Corporation; Nita Ing, Chair, Taiwan High Speed Rail Corporation; Paul Hsu, President, Phycos Corporation; Ken Yen, Chairman, Yu Long Motors; David Hong, President, Taiwan Institute for Economic Research; and Paul Sun, Chairman, Asian Vegetable Research Development Center.

Cross-Straits Atmosphere is Uncertain

¶3. (C) This group had a range of views on almost every issue discussed, but they did agree that implementing the three links would benefit business ties substantially. They generally agreed that cross-Straight policies of the ruling DPP authorities have created an uncertain atmosphere that is bad for doing business. Ing described the cross-Straight relations as "hostile" and thus creating uncertainty for the business community. She complained that President Chen Shui-bian controls all the levers of cross-Straight policy and no one knows what he is thinking. Ing observed that she does not conduct business in China because so much of it is based on personal connections. Rather, she said, her construction firm has consciously decided to seek business opportunities in India. Yen also viewed the situation as uncertain, although he emphasized that there are not any overt restrictions on the type of business that his automobile company can do with China. David Hong noted that, according to the numbers, Taiwan only restricts two percent of the products produced on the island. Morris Chang said, even though his industry falls in that two percent, his company is fully committed to complying with the rules as stated. Paul Hsu tried to sum up the discussion by saying that currently Taiwan firms are in limbo waiting for direction from the Chen Administration on cross-Straight policies. While in limbo, he

suggested Taiwan firms are losing ground to competitors from around the region.

PRC Subsidies

¶4. (SBU) Morris Chang said that his team has recently read newspaper reports of huge subsidies being offered by city and county-level PRC government agencies. He described it as officials putting up the funds to build facilities in Science Parks and then renting to firms such as SMIC (Semiconductor Manufacturing Incorporated of China) at nominal rates. According to the press reports, he said city and country governments are supplying anywhere from US\$300 million to US\$3 billion in subsidies. Chang emphasized that such subsidies are strictly arranged by local entities and not the central government. He added that Shanghai (where his single Mainland chip manufacturing facility is located) definitely does not/not provide such subsidies. Chang promised to communicate specific details on these press reports to Tim Stratford for further review.

Whither Taiwan?

¶5. The table had an extensive discussion about what kinds of policies Taiwan should be pursuing, not just on cross-Straits, but also for its long-term future. David Hong suggested that cross-Straits economic integration will take care of itself over time as market conditions will propel Taiwan firms to move further into the Mainland or leave it altogether. He said some Taiwan firms have already begun relocating out of China to other points in SE Asia and elsewhere. Chang commented that cross-Strait integration is

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already much farther along than many people realize and said that it is quite challenging to determine the correct policy for Taiwan as many people are viewing it as a stark choice between either independence or reunification. He expected that Taiwan will continue to evolve slowly over time both in economic terms and politically.

Planning for the Future

¶6. Ing, Chang and Hsu were quite negative on the prospects of for China to becomeing a democratic country in the near term, say the next 10-15 years. The tenor of the conversation suggested that they believe Taiwan could consider unification only once China has a democratic political system in place. In the interim, these three believe Taiwan should concentrate on developing its human and institutional resources. Chang, in particular, bemoaned the lack of a first-class university on the island and said the authorities need to concentrate on developing top notch political, economic and financial institutions to enable Taiwan firms to prosper in a global economy. Hong supported Chang also, fingering human resource development as the key to Taiwan's future prosperity.

Missed Opportunities

¶7. Ing commented that Taiwan has missed its opportunity to become a regional operations center. Everyone seemed to chime in on this theme, with Hsu and Hong complaining that Taiwan made an abortive effort in this direction some 12 or 15 years before, but failed to execute its program. Ing said that Singapore has taken on this role and it would be very difficult for Taiwan to play catch up at this point.

¶8. (U) This cable has been cleared by USTR.
KEEGAN